mni
All Signal, No Noise
MARKET ANALYSIS

UK Inflation and Labour Market Insight: July 2025 Release

June UK CPI versus Forecasts

	Headline	Core	Services	Core goods (NEIG)	Energy	Food, alcohol, tobacco	Food and Non-alc bevs	Alc bevs and tobacco
Actual June	3.58	3.66	4.73	1.81	-0.66	5.01	4.55	6.37
BOE May MPR forecast	3.35	3.58*	4.57	1.88	-0.31*	3.99*	3.4	5.6
Surprise for BOE	0.22	0.08*	0.15	-0.07	-0.35*	1.02*	1.12	0.74
MNI Median	3.40	3.42	4.50	1.66	-0.65	5.1		
MNI Mean	3.39	3.44	4.50	1.64	-0.81	5.04		
Bloomberg Consensus	3.4	3.5	4.5					
May	3.36	3.54*	4.68	1.57	-1.68*	4.68*	4.42	5.45
May BOE Surprise	0.00	-0.13*	-0.05	-0.28	-0.53*	0.70*	0.94	0.01

Source: MNI, ONS, BOE

Note: BOE forecasts for Core, Energy and food, alcohol, tobacco calculated by MNI

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21 July, by Tim Davis

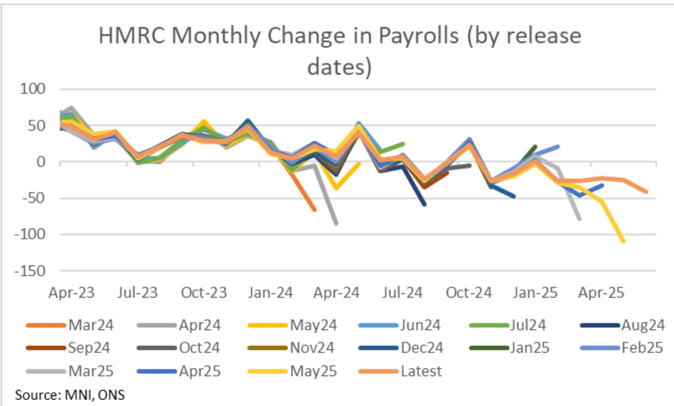
Labour Market Summary

	Latest Mar-May	MNI Median	MNI Mean	Bloomberg Consensus	Prior (Feb-Apr)	Unrevised (Feb-Apr)
Total AWE	4.99	4.92	4.94	5.0	5.38	5.32
AWE ex bonus	5.00	4.9	4.91	4.9	5.27	5.23
Private sector AWE	4.94				5.33	5.28
Private AWE ex bonus	4.88	4.8	4.76	4.8	5.20	5.14
Public sector AWE	5.32				5.48	5.48
Public AWE ex bonus	5.51				5.58	5.57
Unemployment rate	4.67	4.6	4.63	4.6	4.60	4.60
Economic activity rate	78.99				78.74	78.74
Employment rate	75.24				75.06	75.06
	Apr-Jun	**Mar-May**	**Mar-May (unrevised)**		**Feb-Apr**	**Unrevised (Feb-Apr)**
Vacancies (000s)	727	738	736		763	760
V-U Ratio	0.43	0.44	0.45		0.47	0.46
	June (flash)	**May**	**May (Unrevised)**	**April**	**Apr (Unrevised)**	**March**
Payrolled employees (000s) SA	30,266	30,307	30,175	30,332	30,284	30,355
Net revisions		132		48		16
M/M Change SA	-41.4	-25.5	-109.1	-22.9	-55.0	-26.7
M/M Change SA (MNI Median)	-35	-55				
M/M Change SA (MNI Mean)	-46	-55				
3M Change SA	-89.7	-75.1	-199.3	-76.0	-118.4	-51.7
Payrolled employees (Y/Y) NSA	-179.7	-133.2	-272.7	-87.2	-131.1	-21.4
PAYE median pay (Y/Y) SA	5.57%	5.71%	5.79%	6.16%	6.24%	5.60%

Source: MNI, ONS

Relative to market expectations both the labour market report and CPI were a little stronger than expected. All in all, we think there is still enough evidence for the MPC to vote for a 25bp cut in August, and probably still enough for quarterly cuts to continue thereafter, but these data do reduce the risk of sequential cuts soon (particularly with CPI a little higher this week too) and probably swing us from quarterly cuts with a small risk of sequential cuts being the base case, to perhaps a November cut shouldn't be fully anticipated.

We had flagged in our data preview three factors to pay particular attention to. First, headline inflation – which was a little higher than consensus expected and is now 0.23ppt higher than the BOE's forecast. Second, payrolls data which showed a huge revision to the May data (more than expected) while flash June data was broadly in line with expectations – overall this still shows a slowing labour market but doesn't ring huge alarm bells. Third, private regular wage data which was marginally higher than expected at 4.88%Y/Y in the 3-months to May, but is still tracking well below the BOE's Q2 forecast of 5.20% (and indeed closer to the BOE's Q3 forecast of 4.71%).



None of the sell side views that we track now look for a September cut

Indeed, the only four sell side bank views that we track that had been looking for both August and September cuts following the June MPC meeting (Bank of America, Citi, Goldman Sachs, Morgan Stanley) have all now switched their view to looking for looking for an August cut, a September pause with the following cut comes in November (which is the sell side consensus view). However, none of these view changes have been accompanied by reassessments of the terminal rate (which still varies widely between sell side analysts); the end of the cutting cycle has been pushed further into the future instead. And indeed, three of these four banks (Citi, GS, MS) as well as Deutsche Bank continue to expect a December cut, too.

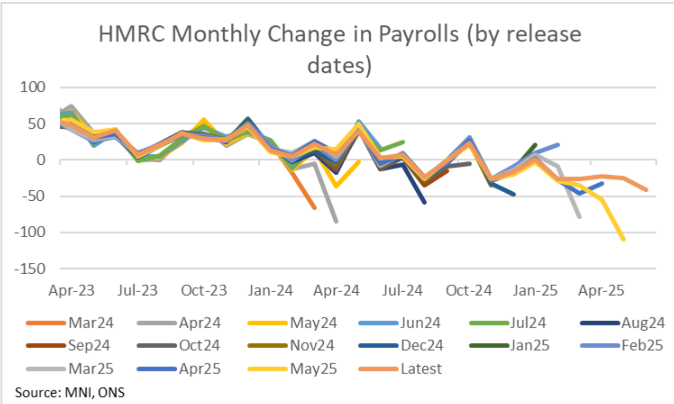
Market pricing little different for August, but Feb'26 sees 11bp less priced over the week

In terms of market pricing, expectations for August did not shift a great deal over the week with the August MPC-dated SONIA contract remaining in a 2.6bp range across the week with markets pricing around an 86% probability of a 25bp cut as of Friday's close. Cumulative September pricing moved from around 30bp at the start of the week to around 25bp by the week's end while November pricing fell from around 47bp on Monday's close to 40bp by the end of the week. The most notable move was in the Feb'26 contract which moved from just over 70bp priced at the start of the week to 59bp by the end of the week – around 11bp less priced in, although not all of this was driven by domestic data, of course.

Labour market details

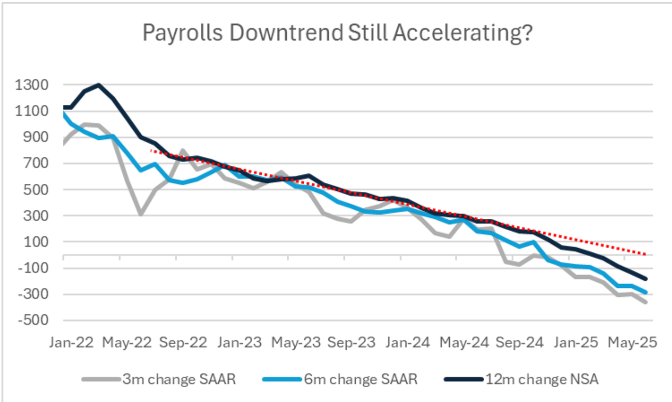
Huge revisions to payrolls data change the narrative

The RTI HMRC payrolls data was notably revised over the past 3 months and now doesn't ring as many alarm bells (it had been one of the major concerns from last month's release). There was a huge upward revision of May payrolls from -109k to -25k (the MNI median expected a smaller revision to -55k there) and June was broadly in line with expectations at -41k (MNI median -35k).



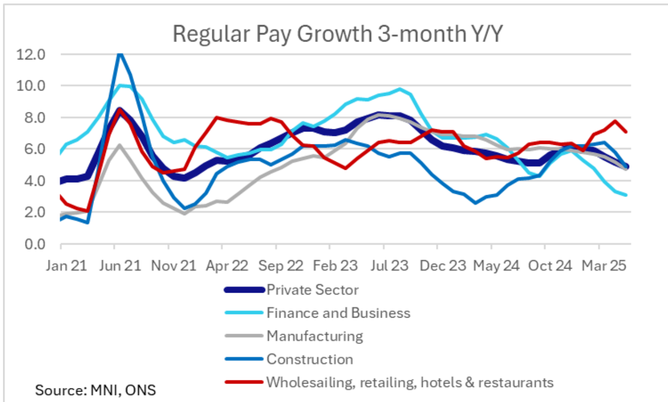
Source: MNI, ONS

It was not just the May data that was revised upwards with net revisions seeing an additional 132k employees added to the dataset (April seeing a notable revision from -55k to -23k. This leaves May's total payroll print at 30.31mln, up from 30.17mln (an additional 132k employees). The flash print for June was 30.26mln. We, the market and the MPC know to always take the payrolls print with a large handful of salt, but the size of the revisions seen in the latest report are even larger than usual and do change the narrative somewhat from a potentially large alarm bell ringing to a more gradual decline.



Private regular wage growth marginally above consensus; notably below Q2 BOE forecast

Private regular AWE was 4.88%Y/Y in the 3-months to May (MNI median was 4.8%Y/Y), this marginal upside surprise to the market was partly driven by an upward revision to the single month April data and partly by new data. For reference the BOE's forecast for Q2 is 5.20%Y/Y so we are still on course for a notable undershoot of at least 3 tenths, but there is no tangible additional downside risk in the latest release. There was an upward revision to the single month data for April



Source: MNI, ONS

from 4.78%Y/Y to 4.95%Y/Y while the single month data for May came in at 4.83%Y/Y. This meant that the 3-months to April were revised up 0.06ppt to 5.20%Y/Y while the 3-months to May came in at 4.88%Y/Y.

Public sector AWE slowed a little both in total and ex-bonus terms but we don't pay too much attention to this generally as it is a more lagging measure of a combination of private wage growth and inflation.

The PAYE RTI median earnings fell back to 5.57%Y/Y in June from 5.71%Y/Y in May. But looking at a 3-month average there has been little progress in this metric over the past six months.

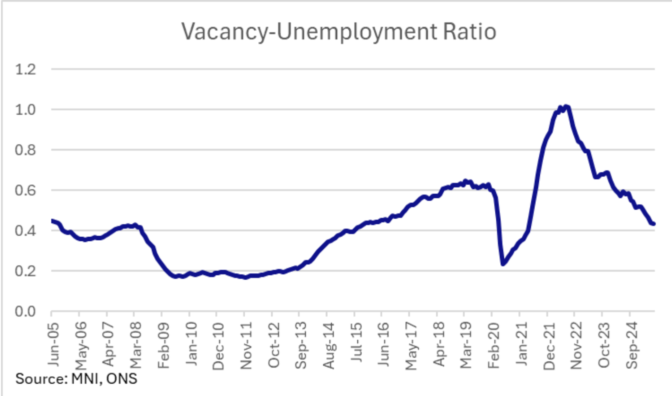
Vacancies data and the V-U ratio continue to soften

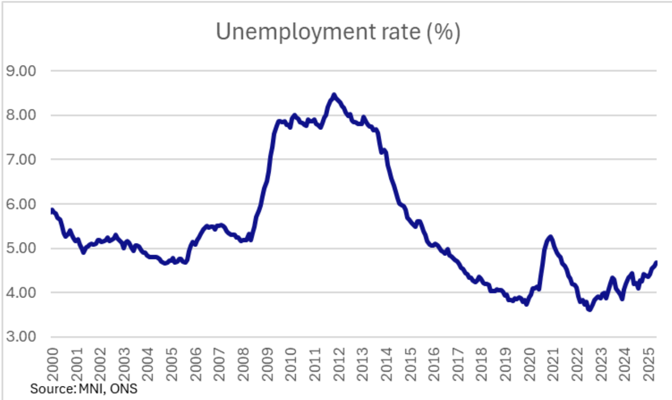
Vacancies data continued to soften, coming in at 727k for the 3-months to June and with the V-U ratio falling to 0.43 in the 3-months to June (based on May unemployment numbers). This fall has been driven by both sides of the equation but the trend shows no sign of slowing at this point and is showing further signs of slack. The BOE estimated that the equilibrium V/U rate was 0.57 in Q1 (when the rate was 0.49).

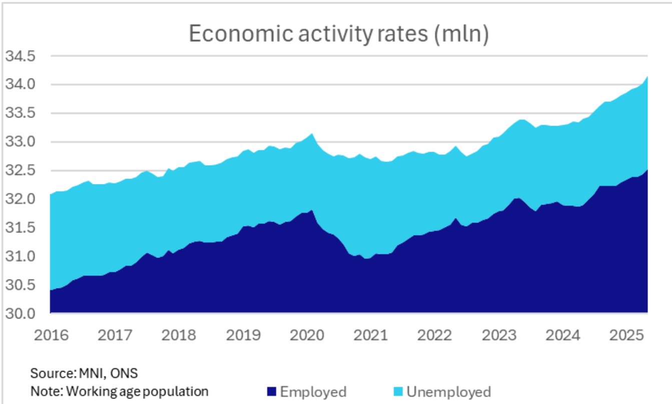
Unemployment rate picks up – but driven by participation rate increases as employment continues to grow

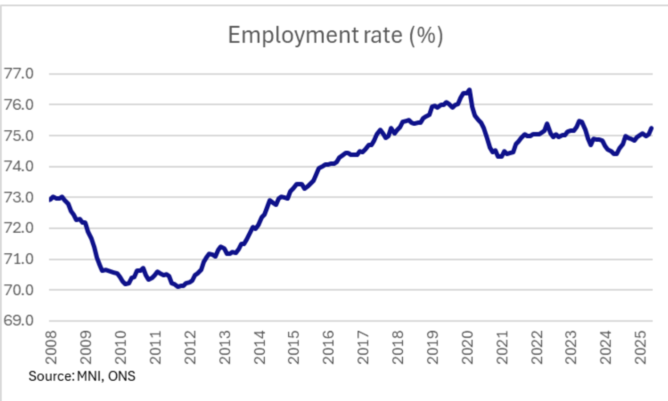
Looking at the denominator, unemployment has increased and the unemployment rate has picked up to 4.67% (marginally above the MNI mean of 4.63%, but rounding up a tenth versus the median expectation). However, this is largely due to a reduction in the inactivity rate and we would make two observations on this.

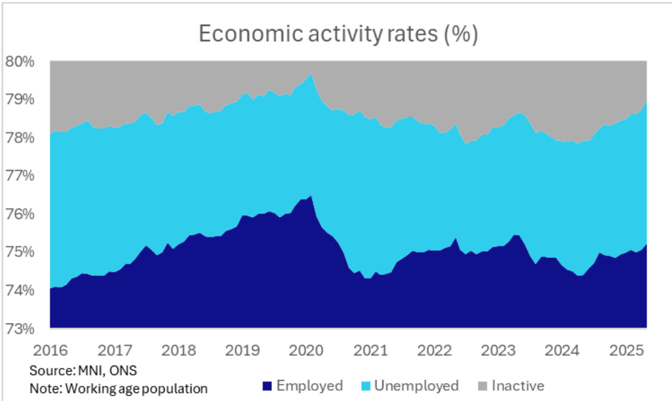
The level of employed people continues to increase and is now at a record high (indeed there was an increase of 134k employees over the past 3 months – higher than the MNI median of 45k). The employment rate for the working age population has marginally ticked up a little over the past six months too. This means that







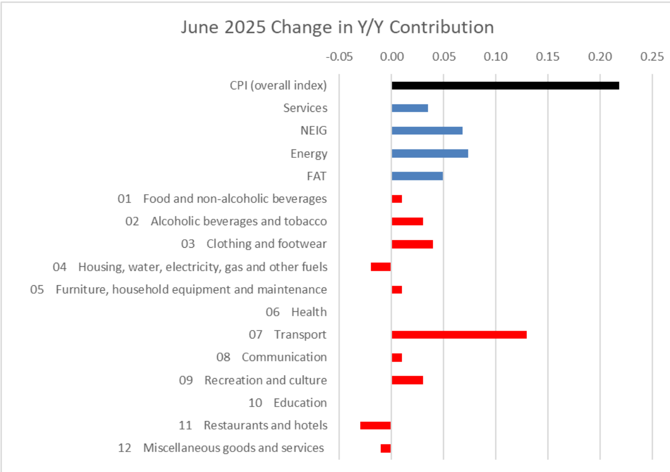




almost the entire rise in the unemployment rate over the past 18+ months has been driven by the economic activity rate increasing at a faster rate than the employment rate. Or more simply the participation rate has been increasing.

This leaves the MPC with even more of a conundrum. As many MPC members have noted in speeches over the past couple of years since issues with the LFS data became more poignant there are no real good alternatives to judge the inactivity rate or participation rate. Employment can be proxied with the payrolls data and with both private and BOE survey data, but the split between inactivity and unemployment doesn't really get picked up elsewhere.

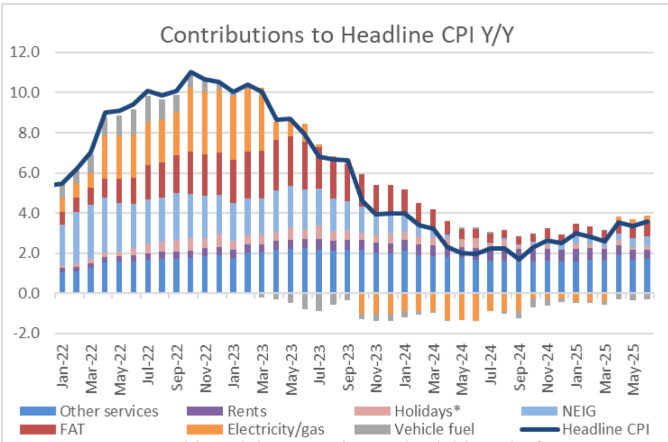
There has been a cloud over the LFS data for some time, and that made it difficult to judge quite how tight the labour market had become. Now it also makes it is making it increasingly difficult to know how fast the labour market is loosening.



Source: MNI, ONS

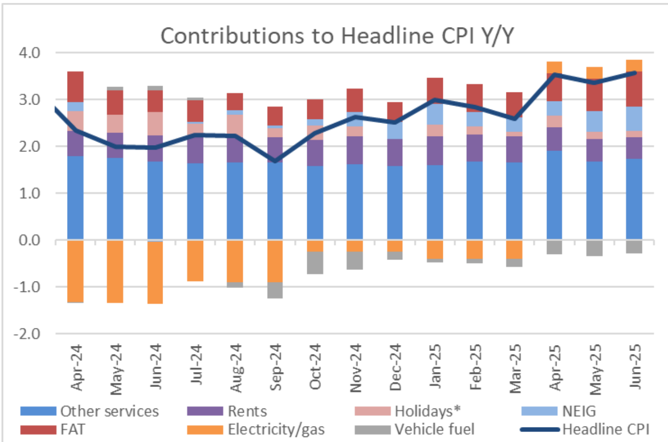
CPI Review in Detail

The big picture is that headline CPI in June was 0.22ppt above the BOE's forecast in its May MPR. However, around 0.15ppt of this surprise has been for food, alcohol and tobacco with the remaining less than 0.08ppt coming from services inflation, of which a stronger-than-expected air fares print contributed 0.03ppt. So effectively, relative to BOE expectations food and alcohol prices are notably stronger than expected but they would likely describe services CPI as broadly in line with expectations.



Source: MNI, ONS Note: Holidays includes accommodation, package holidays and air fares

We have noted in many of our recent publications that it is headline CPI that matters most important for the MPC in 2025 rather than services CPI. While services CPI is an important component, BOE research has shown that consumer inflation expectations are disproportionately influenced by the price of their weekly supermarket shop, the price of filling their car with petrol and utilities prices. They have also pointed to non-linearities in consumer responses, noting that the tipping point is around 3.5%Y/Y and if CPI moves much above this figure that inflation is more noticeable to consumers.



Source: MNI, ONS Note: Holidays includes accommodation, package holidays and air fares

Also, as we noted in our preview, food prices are rising faster in the UK than in the Eurozone and there are some idiosyncratic reasons for this such as employers' NIC (most supermarket workers are relatively low paid and total cost of employment for supermarkets will have increased notably). Also there are changes to packaging taxes, some of which have already taken effect and some of which will take effect later in the year. June also saw alcohol prices increase. Overall the FAT (food, alcohol and tobacco) category came in at 5.01%Y/Y which was broadly in line with the MNI mean of 5.04%%Y/Y. However, that is still just over 1ppt higher than the BOE's forecast of 3.99%Y/Y (and larger than the 0.70ppt surprise to the BOE's forecast for May). We don't expect food prices to reverse and expect that the BOE will raise its estimate of food price inflation in its August MPR forecast round.

Services prices were 0.15ppt higher than the BOE's forecast and 0.23ppt above the MNI median estimate. Around 0.06ppt of this was due to higher-than-expected air fares (despite the index day of 10 June as had been expected). As the ONS notes, this was the largest M/M rise for June since 2018 at 7.9%. The analyst previews that we had read generally expected air fares to be closer to 3%. Accommodation negatively contributed to the Y/Y rate on base effects, but may have been a little firmer than expected given that the June 2024 print included the boost from last year's Taylor Swift concert.
